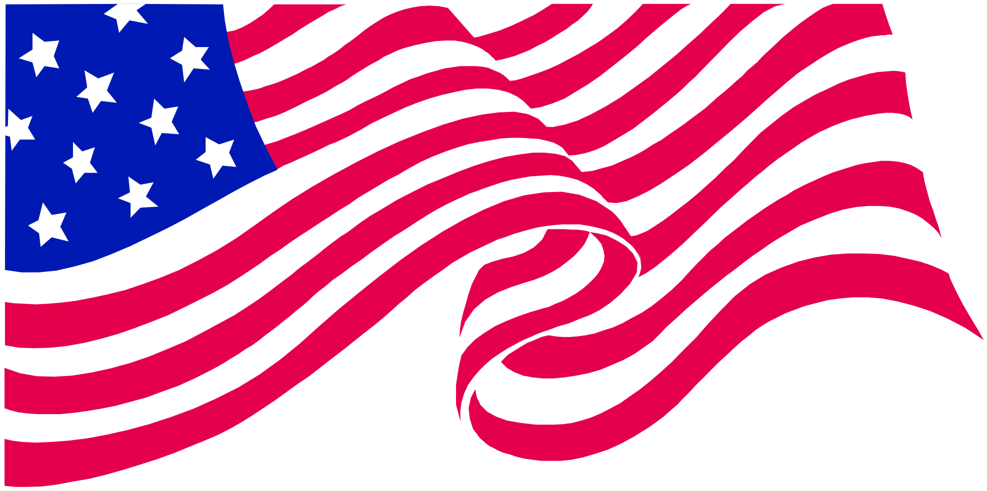

Investment Climate Report

Egypt

July 2003

Embassy of the United States of America

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INTRODUCTION

Egypt's 70-million strong domestic market, proximity to major markets in Europe and the Persian Gulf, and status as the political and cultural center of the Arab world make it a potentially attractive destination for foreign investors interested in production for both the local market and exports. Economic reforms undertaken since 1991 have opened almost all sectors of the economy to private business, including foreign investment. While American investment is overwhelmingly centered in the oil and gas sector, U.S. firms representing almost all sectors of the economy have launched operations in Egypt. Persistent weaknesses in the business environment, however - particularly in tariff/import procedures and overall bureaucratic red tape – continue to keep the level of foreign investment well below Egypt’s potential.

Annual foreign direct investment (FDI) averaged around $1 billion per year from the mid-1990s through 2000, reaching a peak of $1.6 billion in Egyptian fiscal year (FY) 1999/2000 (the fiscal year runs from July to June). Since that time, a slowdown in the Egyptian economy, an increasing perception among investors of insufficient progress on economic reform, and regional tensions have contributed to a decrease in the level of FDI. In FY 2000/01 and FY 2001/02, FDI fell to just $509.4 million and $428.2 million, respectively. The post-September 11 global economic slowdown exacerbated Egypt’s downturn in late 2001, while uncertainty surrounding the war in Iraq delayed investment decisions in late 2002 and early 2003. FDI inflow through the first three quarters of FY 2002/03 (July 2002-March 2003) was $578.1 million.

Inward portfolio investment, which hit a high of almost $1.5 billion (net inflow) in FY 1996/97, has been weak ever since the Southeast Asia economic crisis. Net portfolio investment in FY 2001/02 amounted to $45.3 million, and regional uncertainty resulted in a net outflow of $206 million in the first three quarters of FY 2002/03. Egypt’s Cairo and Alexandria Stock Exchange (CASE) has rebounded sharply in the aftermath of the war in Iraq, however, indicating at least some renewed foreign interest in the Egyptian market.

The government’s decision to float the value of the pound in late January and the pound’s subsequent depreciation have led to an improvement in Egypt’s current account. However, mixed signals by the government have delayed improvements in foreign exchange liquidity and turnover.

American firms remain largely satisfied with the revenues generated from their Egyptian investments and view the large Egyptian domestic market as holding strong potential for long-term growth. Most investors continue to believe, however, that the full potential of the Egyptian market will only be met when the tax system is simplified, customs administration is reformed, new intellectual property protection laws are fully implemented, and additional steps are taken to reduce the paperwork and bureaucracy related to local operations. According to the United States Department of Commerce, total U.S. direct investment in Egypt stood at $2.959 billion at the end of 2002.

Petroleum and natural gas, telecommunications/information technology, education/training equipment and services, port development, and environmental equipment and services represent the most promising investment sectors in Egypt.

A1. OPENNESS TO FOREIGN INVESTMENT

Increased foreign investment continues to be at the heart of the Government of Egypt's (GOE) economic strategy for attaining and sustaining high economic growth rates. The General Authority for Free Zones and Investment (GAFI) has statutory responsibility for promoting and regulating foreign investment, but many other ministries and supervisory bodies also play a role in investments in their areas of jurisdiction. Law 8 of 1997 and Law 3 of 1998 are the two key laws governing investment in Egypt. Foreign investors may own up to 100 percent of businesses within the scope of this legislation.

Investment Incentives and Guarantees Law 8 of 1997: Law 8 is designed to allocate investment to targeted economic sectors and to promote decentralization of industry from the crowded geographical area of the Nile Valley. The law and its executive regulations and amendments group together over 20 incentives. It allows 100-percent foreign ownership and guarantees the right to remit income earned in Egypt and to repatriate capital. Other key provisions include: guarantees against confiscation, sequestration, and nationalization; the right to own land; the right to maintain foreign-currency bank accounts; freedom from administrative attachment; the right to repatriate capital and profits; and equal treatment regardless of nationality.

Under Law 8, qualifying investments in various fields are assured approval, effectively creating a "positive list." These areas include land reclamation; fish, poultry, and animal production; industry and mining; tourism (covering hotels, motels, tourist villages, and transportation); maritime transportation; refrigerated transportation for agricultural products and processed food; air transportation and related services; housing; real estate development; oil production and related services; hospitals and medical centers that offer 10 percent of their services free of charge; water pumping stations; venture capital; computer software production; projects financed by the Social Fund for Development; and leasing.

Additional Incentives and Measures: Projects in the government-sponsored "Mega-Projects," including the Toshka and East Oweinat desert reclamation projects in the far southwest of Egypt and the East Port Said port/industrial development project, receive significant tax incentives. There are also eleven new industrial zones in satellite cities in the desert areas outside of Cairo and Alexandria and around the cities of Minya, Sohag, and Beni Suef, which benefit from incentives.

Some projects still require prior approval from relevant ministries in addition to GAFI, including: investments in the Sinai; all military products and related industries; and tobacco and tobacco products. Law 15 of 1963 prohibits foreign ownership of areas designated as agricultural lands (in the Nile Valley, Delta, and Oases), except for desert reclamation projects.

Companies Law 3 of 1998: This measure applies to investments in sectors not covered by Law 8 of 1997, including shareholder, joint stock, and limited liability companies and representative and branch offices. Law 3 permits automatic company registration upon presentation of an application to the Companies Department (which became part of GAFI in 2002), with some exceptions. These exceptions include denials based upon noncompliance with procedures and laws, as well as insufficient qualifications to operate a business. Founders of joint stock and limited liability companies must submit a bank certificate to the Companies Authority showing that 10 percent of the company's issued capital has been paid in. The law also provides for the right to petition a denial of incorporation; removes the requirement that at least 49 percent of shareholders be Egyptian; allows 100-percent foreign representation on the board of directors; and strengthens accounting standards.

Oil & gas exploration and development are subject to different procedures, with an individual law required for each investment. Companies are initially granted exclusive rights to exploration in a concession area. If commercial discoveries are found, a joint venture with the state-owned Egyptian General Petroleum Company (EGPC) is formed, based on a standard production-sharing agreement that is specified in the law for the concession. Performance standards include the drilling of at least one well in each phase of the exploration period, as defined by the agreement.

Privatization: Egypt has an ongoing privatization program under Public Enterprise Law 203 of 1991 for the sale of several hundred wholly or partially state-owned enterprises. The law permits sales to foreign entities and allows majority foreign ownership of banks in Egypt. The Public Enterprise Office (PEO) within the Ministry of Public Enterprise (MPE) holds advisory responsibility for the sale of all such public shares including the public share in at least 660 joint venture companies (JVs - defined as mixed state and private ownership, whether foreign or domestic) previously under the jurisdiction of the Ministry of Foreign Trade. As of March 2003, 193 entities had been privatized since 1993, generating proceeds of LE 17.1 billion. However, since January 2001 only 21 Law 203 privatization transactions, with a total value of LE 1.2 billion, have been carried out compared to an annual average of 25-30 transactions worth LE 2.5-3.5 billion over the previous five years.

This slowdown in privatization has created doubts in the minds of many investors about the GOE's commitment to the program. Senior officials, including the Minister of Public Enterprise, continue to emphasize Egypt's commitment to privatization, however. The PEO has introduced alternative methods for privatization including asset unbundling and leasing with option to buy, and incentives have been announced for the sale of 66 companies that have been identified as distressed or loss makers, including five-year tax exemptions and the removal of real estate value from company valuations. In 2003, the MPE announced a privatization by capitalization program to divest the public stake in companies that are considered less attractive by investors. The program will gradually convert public companies into privately managed entities as a means of relieving the GOE from the financial burden of restructuring.

Investors have traditionally identified valuation and commitment, as reflected in the pace of execution of deals, as the two primary obstacles to effective privatization in Egypt. Law 203 was amended in 1998 to allow the general assemblies of holding companies to accept bids below the initial reserve price, but only around 10 companies have been sold under that provision since that time. The MPE has managed to retain the services of 44 short-listed local and international investment banking firms to assist in the valuation and promotion of public companies offered in the privatization program. The more flexible exchange rate adopted by Egypt in January 2003 and the subsequent depreciation of the pound should make public companies more attractive to foreign buyers in dollar terms

USAID/Cairo assists the GOE in its privatization program through the "Privatization Implementation Program (PIP)." PIP provides technical assistance in the areas of transaction support, general policy and advisory assistance, public awareness, advocacy and constituency support building, and monitoring and reporting on public enterprises and privatization.

The privatization program now includes services and public utilities. The GOE has also opened the maritime, telecommunications, and infrastructure sectors to private investors on a build-own-operate-transfer (BOOT) basis. Foreign companies have won some major BOOT tenders in power generation and airport construction. Since 2002, the GOE has suggested that BOOT projects that will require payment in foreign exchange will also be required to generate foreign-exchange revenues. The GOE was expected to offer 20 percent of Telecom Egypt for sale in 2000, but the offering was postponed pending more favorable market conditions.

Over the last year, the GOE has taken three significant steps to facilitate future privatization in the field of telecommunications and information technology:

In February 2003, Egypt's parliament, the People's Assembly (PA), approved a new telecommunications law (Law 10 of 2003), which stipulates that Telecom Egypt (TE) will relinquish its monopoly status as Egypt's domestic operator and sole international operator by January 2006 and provides for greater price flexibility for shares of TE in a future public offering.

In June 2002, Egypt became a party to the World Trade Organization (WTO) Basic Telecommunication Agreement (BTA), which requires the liberalization of telecommunication services.

In April 2003, Egypt joined the WTO Information Technology Agreement (ITA), which requires the eventual elimination of tariffs and all other duties and charges on IT imports from WTO members.

Other key laws governing foreign investment include:

Capital Market Law 95 of 1992: Law 95 and its amendments and regulations govern Egypt's capital markets. In 1998, the government made significant amendments and changes to Law 95 to strengthen stock market regulations against fraud, price manipulation, and insider trading.

Special Economic Zones Law 83 of 2002: Law 83 allows the establishment of special zones for industrial, agricultural and service activities that are mainly export-oriented. Firms operating in these zones enjoy incentives and facilities designed to encourage increased local and foreign investment in export-producing sectors. (See Section E below)

Banking Law 88 of 2003: Banking Law 88 of 2003, adopted in June 2003, replaced a number of laws that regulated the Central Bank of Egypt and the banking sector, dealing in foreign exchange, accounts secrecy, and private ownership of public sector banks. The new law permits private sector ownership of Egypt's four public sector banks. The GOE has installed new management teams with foreign experience at the four banks but is yet to announce specific plans for the privatization of those banks.

Insurance Law 156 of 1998: Law 156 amended Law 91 of 1995. Law 156 removes the 49 percent ceiling on foreign ownership, permits privatization of national insurance companies, and abolishes the ban on foreign nationals serving as corporate officers.

Law 1 of 1998: Law 1 amended Law 12 of 1964, the General Egyptian Maritime Organization Law. Law 1 permits the private sector, including foreign investors, to conduct most maritime transport activities, including loading, supplying, and ship repair.

Law 18 of 1998: Law 18 amended Law 12 of 1996 to allow the government to sell minority shares of electricity distribution companies to private shareholders.

Law 158 of 1998: Allows bookkeepers and companies dealing in central depository instruments to dematerialize shares (i.e. replace physical entries for securities to book entries).

Tenders Law 89 of 1998: Law 89 amended the Tenders and Bidding Law 9 of 1983 governing foreign companies' bids on public tenders. It requires the government to consider both price and best value and to issue an explanation for a bid's refusal. However, the new tender law remains restrictive since Egyptian domestic contractors are accorded priority if their bids do not exceed the lowest foreign bid by more than 15 percent.

Commercial Law 17 of 1999: Law 17 has more than 700 articles covering general commerce, commercial contracts, banking transactions, commercial papers (including checks), and bankruptcy.

Restrictions on and Barriers to Foreign Investment

Explicit Barriers/Prohibitions: A few explicit prohibitions or restrictions on foreign investment exist in the following areas:

--Land/Real Estate: Foreign individual or corporate ownership of agricultural land (defined as traditional agricultural land in the Nile Valley, Delta and Oases) is explicitly prohibited. Foreign individuals can own a maximum of two residences. Companies/Citizens of other Arab countries have customarily received Egyptian-national treatment in this area.

--Commercial Agents and Importation for Resale (i.e., Traders): These activities are explicitly limited to Egyptian nationals.

Informal and De-facto Restrictions:

--Banking/Insurance: The Central Bank has not issued a new commercial banking license in almost 20 years. In practice, the only way for a new bank, whether foreign or local, to enter the market (except as a representative office) is to purchase an existing bank. The same situation appears generally to be the case with the insurance system.

--Other obstacles to investment and business include excessive bureaucracy; a shortage of skilled mid-level management; periodic shortfalls in credit facilities; inability of companies to obtain needed foreign exchange; slow and cumbersome customs procedures; and non-tariff trade barriers.

--Pharmaceutical prices remain controlled, although the government has decontrolled prices of other industrial products. The government uses a standard cost-plus formula to determine pharmaceutical prices for new-to-market products. These prices have not been revised to reflect the 76.5 percent devaluation of the Egyptian currency that has occurred since mid-2000, which sharply reduced the profitability of pharmaceutical companies, most of whom rely heavily on imported inputs. The further devaluation of the Egyptian pound associated with the January 2003 currency float has placed increased pressure on pharmaceutical companies, as input costs continue to increase while retail prices remain fixed.

A2. CONVERSION AND TRANSFER POLICIES

Repatriation of Profits and Capital: Law 38 of 1994 and the executive regulations issued under Ministerial Decree 331 of 1994 regulate foreign exchange transactions in Egypt.

New Foreign Exchange Regime: On January 28, 2003, Prime Minister Atef Ebeid announced the adoption of a free-market exchange-rate system. Under the new system, banks are allowed to set their own exchange rates, and the CBE posts an average rate at the end of each day based on reported transactions, which serves as a market guideline. From the introduction of the new regime to mid-July 2003, the pound has depreciated from LE 4.62/$1 to around LE 6.05/$1. The illegal parallel market that rematerialized in late 2001 to meet the substantial gap between supply and demand at the official rate continues to operate. In the first half of 2003, the parallel market rate ranged from LE 6.15 to 6.25/$1, supporting reports that the new exchange regime was until now not fully meeting demand.

Foreign Currency Surrender Requirement: Prime Ministerial decree 506 of 2003 established a surrender requirement for foreign currency transactions. Under the decree, ministries, authorities, companies, and individuals that engage in foreign-exchange-generating activities are required to sell 75 percent of their foreign-exchange revenues to banks within one week of their receipt. Firms may keep the remaining 25 percent in private accounts to meet their foreign exchange obligations. Firms whose foreign currency obligations exceed 25 percent of their foreign exchange earnings are allowed to exceed this limit, as long as they provide proper documentation to authorities.

Decree 506 applies to all foreign exchange revenues generated after January 1, 2003. The activities of the Ministries of Defense and Interior, National Security Authority, and firms operating in free zones and special economic zones are exempted. A special unit at the Central Bank of Egypt has been established to collect information and data on foreign-exchange payments surrendered to banks in accordance with the decree, and all public and private entities are required to keep regular records of their foreign-exchange-generating business activities.

Egypt largely eliminated its official foreign-exchange transfer restrictions in 1991. Foreign Currency Law 38 of 1994 further relaxed restrictions on capital transfers and emphasized the right of individuals and companies to transfer foreign exchange out of Egypt. Egyptian law allows individuals and businesses to conduct all normal foreign-exchange transactions, including establishing foreign exchange accounts and transferring foreign exchange in and out of Egypt. Authorized banks may provide the full range of foreign-exchange transactions, including accepting deposits, executing transfers, and opening letters of credit. Law 38 maintains some restrictions on the transfer of real-estate sales proceeds owned by foreigners who are not residing in Egypt, requiring such proceeds to be transferred over a five-year period. Foreign currency is to be made available at banks and foreign-exchange bureaus.

In practice, firms continue to report delays ranging from a few days to several months in the processing of their requests to convert Egyptian pounds to foreign currency for imports, loan repayment, and other purposes. In spite of GOE efforts to restrict parallel market transactions, many firms continue to resort to the illegal parallel market in order to meet their foreign-currency needs. Repatriation of profits by foreign-owned companies generally has been affected much less, although occasional delays are reported. Many expected that the GOE's decision to float the pound would ease the problems of gaining access to foreign exchange, but foreign-exchange liquidity and turnover remain problems.

The GOE has repeatedly emphasized its commitment to maintain the profit repatriation system to encourage foreign investors to invest in Egypt. In late 2000, procedures were streamlined to reduce the waiting period for repatriating funds from stock market operations to three days or less. On June 28, 2002, the Central Bank announced a new profit-repatriation system for foreigners investing in the Egyptian stock market. Sub-custodian banks are now required to open foreign and local currency accounts for foreign investors (global custodians), which will be exclusively maintained for stock exchange transactions. The two accounts serve as a channel through which foreign investors process their sales, purchases, dividend collections, and profit repatriation transactions using the bank's posted daily exchange rates. The new system is designed to decrease the settlement period for transactions to less than two days, although longer periods continue to be reported.

Bilateral Investment Treaty: The 1992 U.S.-Egypt Bilateral Investment Treaty provides for free transfer of dividends, royalties, compensation for expropriation, payments arising out of an investment dispute, contract payments, and proceeds from sales. Transfers are to be made in a "freely convertible currency at the prevailing market rate of exchange on the date of transfer with respect to spot transactions in the currency to be transferred".

Worker Remittances: Law 8 of 1997 stipulates that non-Egyptian employees hired by projects established under Law 8 are entitled to transfer their earnings abroad.

Royalty Payments: Conversion and transfer of royalty payments are permitted when a patent, trademark, or other licensing agreement has been approved under Law 8 of 1997.

A3. EXPROPRIATION AND COMPENSATION

As noted in section A1, Law 8 of 1997 provides guarantees against nationalization or confiscation of investment projects under the law's domain. The law further guarantees against seizure requisition, blocking, and placing under custody or sequestration. It also offers guarantees against full or partial expropriation of real estate and investment project property. The U.S.-Egypt Bilateral Investment Treaty, in force since 1992, also provides protection against expropriation.

A4. DISPUTE SETTLEMENT

Egypt acceded to the International Convention for the Settlement of Investment Disputes in 1971. It is a member of the International Center for the Settlement of Investment Disputes (ICSID), which provides a framework for arbitration of investment disputes between the government of the host country and a foreign investor from another member state, provided that the parties agree to such arbitration. Without prejudice to Egyptian courts, Law 8 of 1997 recognizes the right of investors to settle disputes within the framework of bilateral agreements, the ICSID or through arbitration before the Regional

Center for International Commercial Arbitration in Cairo. The U.S.-Egypt Bilateral Investment Treaty, in force since 1992, also provides for non-binding, third party arbitration in investment disputes.

Egypt's Dispute Settlement Law 27 of 1994 and its 1997 amendment provide a comprehensive framework for the arbitration of all domestic and international commercial disputes and limited challenges of arbitration award in court. Law 27 was amended in 1997 to include disputes between public enterprises and the private sector. A special order is required to challenge an arbitration award and such orders are only granted if there is a strong case for successfully challenging the award. The law consolidated and streamlined various confusing and conflicting rules that left the enforcement of international and domestic awards in doubt.

Egypt adheres to the 1958 New York Convention on Enforcement of Arbitrary Awards; the 1965 Washington Convention on the Settlement of Investment Disputes between States and the Nationals of Other States; and the 1974 Convention on the Settlement of Investment Disputes between the Arab States and Nationals of Other States.

Investment disputes involving U.S. persons or companies do exist. Resolution of cases can involve lengthy court proceedings and negotiations, and there have been cases in which Egyptian entities have failed to promptly accept arbitration rulings.

A5. PERFORMANCE REQUIREMENTS AND INCENTIVES

Performance requirements are not specified in Investment Law 8. The ability to fulfill local content requirements is no longer a prerequisite for approval to set up assembly projects. Assembly industries must meet a minimum local content requirement of 45 percent to benefit from customs tariff reductions on imported industrial inputs. Oil and gas exploration companies must drill at least one well in each phase of the exploration period specified in their agreement. Unlike earlier laws, Law 8 does not establish a floor for the percentage of Egyptians employed. The old labor law (Law 137 of 1981) required that foreign workers (aside from managers) account for no more than 10 percent of the workforce and 20 percent of the payroll.

New Labor Law: The new Labor law passed in 2003 (Law 12 of 2003) provides comprehensive guidelines for the recruitment, hiring, compensation, and termination of employees in Egypt and outlines a number of reporting, management, and workplace safety requirements that employers must meet. The new law establishes a limited right of employees to strike, as well as rules and guidelines governing mediation, arbitration, and collective bargaining between employees and employers. Non-discrimination clauses are included and the employment and training of women and eligible children is regulated by the law in accordance with labor-related International Labor Organization (ILO) conventions. The law also creates a national council to discuss and establish a national minimum wage policy. The new labor law came into effect on July 7, 2003, but ministerial decrees implementing the law have not been released as of July 2003. These decrees will reportedly outline any limitations on the percentages of foreign employees that can be hired, caps on their payroll share, and other implementation provisions.

Tax Incentives: Under Law 8 of 1997, foreign companies enjoy various tax incentives. Law 8 provides a general tax exemption of five years for any project operating in one of the fields covered by the law. Specific incentives of 10 years are granted to projects in new industrial zones, certain urban communities, remote areas, and Social Fund for Development projects. Tax exemptions of 20 years are granted to projects outside the Cairo area. All investment projects are granted exemptions from notarization and notification fees; payment of inheritance tax on 25 percent of heir's share in invested capital; and income tax on a portion of dividends after the exemptions expire.

Companies covered under Law 3 of 1998 can benefit from incentives (notably tax holidays) offered for investments in designated areas set forth in the Communities Law and have access to subsidized fuel and power. In addition, companies on the Commercial Register that have more than 50 employees are eligible for a five-year tax holiday.

Pricing and Customs Preferences: The GOE may not intervene to set the prices or profits of companies established under Law 8 except for pharmaceuticals, as noted above. Per Ministry of Finance decree, machinery and equipment imported for projects operating under Law 8 is assessed a flat five percent tariff rate.

Geographical Areas: There are no formal legal geographical restrictions on investments. However, the heavy congestion in Cairo often prompts government officials to deny approval for investments in Cairo unless an economic rationale exists. Upon request, however, government officials will assist investors in locating a site for the project, for example, in one of the new industrial sites located outside Cairo and will sometimes provide necessary infrastructure. In addition to new areas surrounding Cairo, the government has targeted Upper Egypt (Upper Egypt refers to governorates in southern Egypt) for development by private investors. Land in the southern industrial zones is offered free-of-charge. The GOE will provide hookups to infrastructure (water, sewer, electricity, and gas) and transfer land titles to the developer three years after project startup.

Research & Development Projects: Large-scale R&D activities in Egypt are modest, with total spending estimated at LE 2.6 billion. The majority of government-funded R&D programs are in the fields of agriculture, health, and, to a lesser extent, in the manufacturing sector. There is no discrimination against U.S. and other foreign firms wishing to participate in R&D programs in Egypt. Most Egyptian R&D programs are established by government initiative to target specific problems and opportunities. The percentage of the government budget dedicated to R&D spending has traditionally been low, however, R&D spending during the five-year plan period 1997-2002 averaged 0.8 percent of GDP, compared with 0.3 percent from 1992 to 1997. In the current five-year plan (2002-2007), the R&D budget is projected at 1.0 percent of GDP. Donor support plays an important role in Egypt's R&D activities, constituting about 15 percent of total R&D spending.

Export and Import Policies: Over the last two years, Egypt has made uneven progress on trade reform. Although the GOE recognizes the need to eliminate its remaining non-tariff barriers and streamline its cumbersome bureaucracy, significant problems, such as opaque enforcement of Egypt's complex standards system, remain. Although Egypt's average weighted tariff rate is 27.5 percent, its tariff rates overall remain relatively high when compared to those of other developing countries. Egypt announced implementation of the WTO customs valuation system in July 2001, but the system has not been fully implemented. Importers continue to face a confusing mix of new invoice-based and old reference-price valuations. The Ministry of Finance has reiterated its commitment to fully implement the Customs Valuation Agreement, and USAID is funding a five-year, $20 million comprehensive customs-reform project to support the Ministry of Finance's efforts. Since 1993, no goods have required approval prior to import.

High tariffs weaken the competitiveness of a number of U.S. food products, and an effective ban on imported poultry parts remains in place. A ban on whole poultry was lifted in July 1997, but it was replaced by an 80 percent tariff, and dairy products continue to face a 40 percent ad valorem duty. Most other tariffs range between five percent and 40 percent, but Egypt maintains a number of higher tariffs on "luxury goods" (including most automobiles, tobacco, alcoholic beverages, and clothing).

A ban on fabric imports was lifted in 1998, and a ban on apparel imports was lifted in January 2002, in accordance with WTO requirements. On January 1, 2002, however, new specific-rate duties (i.e., per piece rather than ad valorem) were imposed on over 1000 categories of clothing, ranging up to LE 1,400 ($230) per item. These specific rate duties are equivalent to percentage tariffs far higher than Egypt's WTO tariff bindings, which are less than 50 percent.

Mandatory quality-control standards restrict imports of some products to the Egyptian market, in effect providing preferential treatment for domestic products. Although the GOE stresses that the quality-control standards applied to imports are the same as those applied to domestically produced goods, in practice, imports are scrutinized more rigorously by agencies from a number of government ministries. Moreover, certain food imports are subjected to quality-control standards lacking in technical and scientific justification. For example, Egyptian Standard 1522 of 1991 requires that beef imported for direct consumption contain no more than seven percent fat content, a low level virtually never reached in premium beef exports. Egyptian beef producers are not subject to this fat content requirement. Many U.S. agricultural products also face burdensome import licensing requirements, and Ministerial Decree 1 of 1998 subjects textile fabric to costly and complicated labeling requirements.

Health food products such as low-calorie foods, diet pills, and vitamins also face informal barriers to trade. These products must obtain a special registration from the Food Institute of the Ministry of Health, which can take months to process. Products with domestic substitutes have experienced substantial delays, some as many as six months to one year.

Shelf-life standards also act as an indirect trade barrier. Egypt sets the shelf life of processed foods by regulations that are rigid and do not recognize quality, safety, and technological differences between producers. By government decree, imports (mainly food products) entering Egypt must have 50 percent or more of their shelf life remaining. Egypt also applies shelf life standards to certain non-food products such as syringes and catheters.

The import-inspection process remains confusing despite a 1999 Presidential Decree designating the General Organization for Export and Import Control (GOEIC) as the coordinator for all import inspections. Over 130 categories of imports are subject to mandatory quality-control inspections, including foodstuffs, appliances, electrical products, and auto parts. Imported refrigerated containers of foodstuffs typically take 25 days to clear customs. While two-month delays were common in the past, import inspections now typically take three to four weeks.

Ministerial Decrees 577 and 580 of 1999 require cars to be imported in the year of production. Ministerial Decree 619 of 1998 required imports to be accompanied by a certification of origin and stipulated that consumer goods (durable and non-durable) be shipped directly from the country of origin. Decree 619 subsequently was adjusted in late 1999 to allow the shipment of imported consumer goods from the main branches of the producing company and its distribution centers. Regulations also were implemented to facilitate the ability of firms to meet the requirement for a certificate of origin. This requirement can now be fulfilled with a company invoice noting the country of origin and bearing the endorsement of an Egyptian overseas commercial office. Since May 1999, the Central Bank of Egypt has required 100 percent coverage for credit lines opened for goods imported by traders for resale purposes.

In June 2002, Parliament approved a new Export Promotion Law, Law 155 of 2002, which reinforces the coordinating authority of the GOEIC over import inspection, although the Ministry of Health and the Ministry of Agriculture maintain their own inspection units and procedures. The law is designed to improve the duty drawback and temporary admission systems for exporters by establishing a central unit under the joint supervision of the Ministries of Finance and Foreign Trade to monitor and streamline the systems. In November 2002, both Ministries of Foreign Trade and Finance inaugurated the new temporary-admissions unit at the Port of Alexandria, a first step in a plan to upgrade operation of the temporary-admissions system at all ports of entry in the country. The law also established an "export promotion fund," to promote Egyptian exports and increase their share of foreign markets, but the specific activities of the fund have not yet been determined. To date the fund has not been used to subsidize exports. As of June 2003 the law's executive regulations have not yet been issued.

Export Subsidies: Egypt only rarely provides agricultural export subsidies and does not impose export performance requirements. A small export subsidy for rice (about $19 million total) ran from September 2000 to September 2001, but the program was terminated and has not been renewed. Animal hides and scrap metals (except stainless steel) are the only items banned from export. Exporting industries, including Investment Law 8 projects, are required to pay the full customs rate on imported inputs and receive a partial tariff rebate when they export finished products. Although exporters had previously reported lengthy delays in the customs-rebate process, recent rebate transactions have been processed faster and more efficiently than in the past. The paperwork process associated with import-export transactions also has been simplified and updated.

A6. RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

By law, private Egyptian firms have the right to establish and own business enterprises and engage in all forms of remunerative activity, except for the restrictions on foreign business mentioned above. In practice, private firms sometimes find themselves at a disadvantage when competing for resources with state-owned firms. For example, state-owned firms often have easier access to bank credit and foreign exchange from the state-dominated banking system than do private firms, whether domestic or foreign.

A7. PROTECTION OF PROPERTY RIGHTS

The Egyptian legal system provides protection for real and personal property, but laws on real-estate ownership are complex and titles to real property may be difficult to establish and trace. The GOE is moving slowly to modernize the laws on real-estate ownership and tenancy. In 1997 the GOE passed legislation eliminating price controls on commercial space following enactment of a similar law pertaining to agricultural land leases in 1996.

The mortgage facility in Egypt is underdeveloped. In June 2001 the People's Assembly passed Real Estate Mortgage law number 148 for 2001. The law allows both banks and non-bank mortgage companies to issue mortgages and provides, for the first time under Egyptian law, clear procedures for foreclosure on property of defaulting debtors.

In May 2002 Parliament approved amendments to the Banks and Credit Law that facilitated mortgage activities in banks and lowered mortgage registration fees. A General Authority for Real Estate Mortgage Affairs has been established under the supervision of the Ministry of Housing to regulate real estate mortgages in Egypt. Two real-estate finance companies are currently being established, and at least one should start operating by August 2003. Amendments to the existing Capital Market Law have been drafted to regulate securitization activities, allowing the issuance of mortgage-backed securities, and could be approved by Parliament before the end of 2003. Mortgages could be issued by the beginning of 2004, but it is still too early to tell how well this law will allow an efficient mortgage market to operate.

Intellectual Property Rights (IPR): Egypt is a signatory to the WTO Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement, the Bern Copyright

Convention, the Paris Patent Convention, the Paris Convention for Protection of Industrial Property of 1883, the Madrid Convention of 1954, and the Nice Convention for the classification of goods and services. Prior to 2002, Egypt's protection of intellectual property rights was well below international standards, particularly its commitments under TRIPS.

Egypt has made progress in strengthening its IPR regime through improvements in its domestic legal framework and enforcement capabilities. In May 2002, Egypt enacted a new comprehensive IPR law (Law 82 of 2002) that met certain key TRIPS requirements, including providing data exclusivity and exclusive marketing rights and enacting a patent mailbox.

The law also addressed IPR protection in areas such as patents, copyrights (with enhanced protection for sound and motion-picture recordings and computer software), trademarks, plant varieties, industrial design, and semiconductor chip layout design.

Although the law has certain shortcomings, its passage demonstrated a marked improvement in the major facets of Egypt's IPR regime. As a result of Egypt's general improvement in patent protection and in copyright protection enforcement, in May 2003 the United States Trade Representative (USTR) moved Egypt from the IPR "Priority Watch List" (a designation that Egypt had retained since 1998) to the "Watch List."

The following paragraphs summarize the law's provisions on different types of IPR:

Patents: The law increases the protection period for a patent term to 20 years, and for pharmaceuticals includes provisions on data exclusivity and exclusive marketing rights which had been adopted by Prime Ministerial decree in 2000. Egypt has elected to be treated as a Developing Country for pharmaceuticals and chemicals under the TRIPS Agreement, giving it until January 1, 2005 to comply fully with TRIPS provisions for these products.

Copyrights: The new law offers copyright protection to artistic and literary works, computer programs, and audio-visual works. Books and computer programs are provided protection for the author's lifetime plus 50-70 years. Sound recordings are granted 50 years protection from the recording date. The specified penalty for copyright violations is a fine of LE 5,000-10,000 per infringement or a prison term of not less than one month, or both.

Trademarks: The new IPR law offers trademark protection of ten years, in accordance with the Trademark Law Treaty. Penalties have increased to a maximum of 20,000 Egyptian pounds or an imprisonment of not less than two months or both.

Semiconductor Chip Layout Design: The new law incorporates a chapter for protecting semiconductor chip layout design. Previously there was no legislation protecting semiconductor chip layout design, although Egypt had signed the Washington Semiconductor Convention.

Over the last five years the United States has provided significant assistance through USAID-funded projects to Egypt in order to establish and strengthen the GOE's IPR-related institutions. A modern computerized Patent Office is now capable of processing and ensuring the protection of patent applications, and the quality and transparency of the trademark and industrial design registration system has been significantly improved. The GOE has also taken steps to ensure the authorized use of legitimate business software by civilian government departments. In June 2003, Egypt's Commercial Computer Software Producers Union and the Business Software Alliance, an international NGO, announced that business-software piracy in Egypt fell to 52 percent in 2002, from 58 percent a year earlier, with total losses equal to $15.5 million.

Although progress has been made, further steps must be taken to strengthen protection of copyrighted material and confidential test data. High copyright-piracy levels continue to affect many categories of intellectual property, particularly book publishing, entertainment software, music recordings, and motion pictures. Infringement of trademark and industrial designs also remains problematic, although there have been signs of improvement in recent months. Executive regulations dealing with patents, trademarks, and botanical varieties will be released soon. The executive regulations governing copyright protections remain under review.

A8. TRANSPARENCY OF THE REGULATORY SYSTEM

The streamlining of Egyptian investment procedures during recent years, as outlined in other sections of this report, represents a constructive step toward improving Egypt's business environment. However, considerable room for improvement remains. Significant obstacles continue to hinder private sector investment in Egypt, including the often-arbitrary imposition of bureaucratic impediments and the length of time needed to resolve them. Import clearance remains difficult, as several ministries have overlapping regulatory authority. The Export Promotion Law passed in 2002 (cited above) was intended to simplify export and import inspection procedures by granting GOIEC control over the process. The continuing delay in issuing the law's executive regulations has hindered progress, however. Quality control inspections also remain a major issue for importers (see section above). Enforcement of health and safety regulations is uneven and is complicated by a multiplicity of laws, agencies, and opinions. For example, at least four ministries regulate the operation of restaurants. Egypt's accounting standards are still not fully consistent with international norms, although government efforts are moving in that direction.

Law 89 in 1998 amended the Tenders and Bidding Law 9 of 1983 to improve equality and transparency in government procurement. Key provisions of the law include: a prohibition on reopening negotiations after final bids have been received; more transparency in the criteria for bid acceptance and rejection; equality among bidders, contractors, and government agencies; more weight given to the technical aspects of a tender or bid; protection of contractor rights; reduction of insurance fees; immediate return of deposits once the government announces bid or tender results; and the establishment of a Central Office for Complaint Resolution in the Ministry of Finance.

A9. EFFICIENCY OF CAPITAL MARKETS AND PORTFOLIO INVESTMENT

At the start of the 1990's, Egypt's financial sector consisted almost exclusively of banks and insurance companies (both overwhelmingly dominated by state-owned institutions) and there were virtually no avenues for financing of investment except for commercial bank credit, family resources, or retained earnings. The picture has changed significantly since that time with the development of modern stock-market institutions, the beginning of domestic and international bond issuance, and the erosion of state dominance in the banking and insurance fields through the entry of competitive local and foreign institutions.

The Egyptian banking sector had total assets of LE 495.465 billion at the end of June 2002 and total deposits of LE 388.5 billion at the end of April 2003. Four state-owned banks (National Bank of Egypt, Bank Misr, Banque du Caire, and Bank of Alexandria) accounted for around 50 percent of total assets, down from 65-70 percent in the early 1990's. The profitability of public-sector banks remains weak, partly due to high provisioning requirements that absorbed in excess of 50 percent of their pre-provision profits in the past 1-2 years, reflecting the banks' poor asset quality, which has consistently compromised their profitability. Additionally, their portfolios include many loans made to less profitable state-owned enterprises.

The industry, particularly the state-owned banks, has faced problems with non-performing loans granted to other state-owned companies and business people that are unlikely to repay. Outside these problem areas, however, credit in the banking system is generally allocated on market principles and interest rates are market-determined. According to GOE estimates, non-performing loans account for roughly 16 percent of all credit assets, but many outside observers put it at 20 percent or more. Foreign investors have equal opportunity access to bank credit.

Banking Law 88 of 2003: A new Banking Law 88 of 2003 was issued in June 2003 replacing a number of laws that regulated the Central Bank of Egypt and the banking sector, dealing in foreign exchange, accounts secrecy, and private ownership of public sector banks. The law allows foreign bank branches to deal in Egyptian currency. Foreign banks are guaranteed national treatment. The government requires banks to follow systems of loan classification and provisioning. Since 1997 the Central Bank of Egypt (CBE) has required banks to apply International Accounting Standards (IAS) and to publish an annual financial report based on IAS. The CBE mandated banks, excluding foreign branches, to comply with the 10 percent Basle Capital Adequacy Ratio by March 31, 2003 as part of a more comprehensive banking sector reform and modernization process. The CBE is working with banks to comply with Basle II standards by 2006.

Mortgage Law 148 for 2001 provides the regulatory framework for issuance of mortgages by bank and non-bank institutions and regulates the securitization of mortgages with a potential for increasing trading activity in the stock market.

Leasing Law 95 of 1995: Law 95 allows for the leasing of capital assets and real estate. It is designed to reduce the high start-up costs faced by new investors. Notably, the law specifically allows for the purchase of real estate assets through leasing mechanisms. The Leasing Law was amended in 2001 to make leasing more attractive for investors. The amendments include exempting financial leasing activities from the sales tax and fees, specifying financial standards that leasing companies must adhere to increasing control, organization and efficiency of the leasing activities and incorporating clear guarantees to the parties involved to encourage investments.

The Capital Market Law 95 of 1992 grants foreign investors full access to capital markets. Along with the new Banking law of June 2003 (replacing Banking Laws of 1992 and 1993), it constitutes the primary regulatory framework for the financial sector. The law permits the establishment of Egyptian and foreign companies that provide underwriting of subscriptions, brokerage services, securities and mutual funds management, clearance and settlement of security transactions, and venture capital activities. Law 95 also authorizes the issuance of corporate bonds and bearer shares, and makes income from most stocks and bonds non-taxable. It established mechanisms for arbitration and legal dispute resolution and prohibited unfair market practices. Law 95 empowered the Capital Market Authority (CMA) to be an independent supervisor of the securities industry.

In 1998, the CMA instructed listed companies to adopt international accounting and auditing standards and ruled that directors of securities firms must fulfill expertise requirements. The CMA and the Cairo and Alexandria Stock Exchange (CASE) regularly publish reports on trading and market conditions. The Central Registration and Depository law and its executive regulations have been issued. This law aims at easing and regulating the registration and deposit of securities.

As of April 2003, the market capitalization of the Cairo and Alexandria Stock Exchange (CASE) was approximately LE 143 billion, with shares in 671 of 1151 listed companies subject to active trading in 2002. Total trading volume in 2002 was 833.7 million shares, while trading value for 2002 was LE 34.167 billion.

European and U.S. mutual funds now include Egyptian stocks, and 52 local issues are included in the International Finance Corporation's general index. Eight Egyptian companies are traded on the London Stock Exchange.

The Capital Market Authority (CMA) approved in June 2002 the establishment of the first mutual fund authorized to discount commercial bills. The discounting activity was recently added to the activities included in Investment Incentives Law 8 of 1997.

Egypt was included in the Morgan Stanley Emerging Market Free Index (EMFI) effective May 31, 2001 constituting 0.28 percent of the EMFI capitalization based on the new company selection criteria. There were initially 14 Egyptian companies in the Index with a total capitalization of $2.53 billion, representing 0.015 percent of the Morgan Stanley All Country World Index (MSCI ACWI).

The GOE continues to introduce measures to bring Egypt's capital market closer to international standards. Companies listed on the CASE are required to apply international accounting and disclosure standards. Stocks are delisted from the exchange if not traded for six months. Settlement of transactions now takes three days for dematerialized issues, four days for materialized issues and two days for 14 active stocks that are not bound by the five percent daily price movement ceiling, a significant improvement over the eleven days needed two years ago. USAID/Cairo is working with GOE authorities and the CASE on an ambitious $32 million technical assistance program for the development of the Egyptian capital market. The project is working in four major areas: legal and regulatory reform, automation, institutional development, and debt market development and is expected to end in August 2003.

There are no restrictions on foreign investment in the stock exchange. Although Egyptian law and regulations allow companies to adopt bylaws limiting or prohibiting foreign ownership of shares, only one company listed on the stock exchange has such restrictions. A significant number of the companies listed on the exchange are family-owned or -dominated conglomerates, and free trading of shares in many of these ventures, while increasing, remains limited.

Development of the government and corporate bond market has lagged behind the equity market, but changes are being introduced to encourage bond trading. Since 1994, there have been at least 33 issues of corporate and eight issues of medium-term government bonds. Treasury bonds are traded on the stock market. The GOE has allowed financial institutions to deal in bonds for their accounts provided they maintain a minimum capital of LE 10 million.

In May 2002 the Minister of Finance issued decree number 480 of 2002 establishing the Primary Dealers System, which is expected to come into effect in the last quarter of 2003. The new system, which is being established with the assistance of the USAID Capital Market project, allows financial institutions, including banks and bond dealers, listed at the Ministry of Finance to underwrite primary issues of government securities and activate trading in the secondary market through sale, purchase, and repurchase agreements of government securities.

The Minister of Foreign Trade added in 2002 an additional chapter to the executive regulations of the existing capital market Law 95 of 1992 on margin trading to increase liquidity and trading in the market through brokerage firms and financially solvent licensed companies. To date, however, margin trading has not actively pursued in the capital market due to the limited trading activity and therefore profits of most brokerage firms.

Developments in the capital market regulatory environment in 2002 and 2003 generally aim at increasing the degree of transparency and disclosure to enhance trading efficiency and implement prudent trading principles including protecting minority rights and corporate governance.

A10. POLITICAL VIOLENCE

There have been no terrorist attacks directed at foreigners since 1997 attacks in Luxor and Cairo. Following the 1997 incidents, Egyptian officials enhanced security at airports, hotels, and tourist sites throughout the country. Effective police operations in recent years and the heightened security posture throughout the country have made it more difficult for extremist groups to conduct operations. However, the threat has not been eliminated. As elsewhere, particularly since 9/11, the U.S. Embassy periodically receives information concerning extremists' intentions. All Americans are urged to be vigilant and exercise good security practices while in Egypt.

Following the escalation of violence in Israel and the Palestinian territories there was some limited violence and minor damage done to American-branded fast food restaurants and shops. The outbreak of the war in Iraq led to several large demonstrations in Cairo and Alexandria, but property damage was incidental and foreign businesses and property were not targeted. The GOE has reiterated its interest in foreign investment and its opposition to any boycott of U.S. products, and major threats to foreign investments and entities have not materialized.

A11. CORRUPTION

Corruption in Egypt is considered a criminal act. Two agencies under the authority of the Cabinet of Ministers--the Administrative Control Authority (ACA) and the Illicit Gain Office (IGO)--oversee enforcement of corruption laws in the public sector. In the private sector, there are two types of corruption cases. Commercial disputes are subject to international commercial law and Law 27 of 1994. The district attorney's office and the civil courts adjudicate civil cases. The ACA and IGO may intervene when corruption occurs in the private sector if public money and the public interest are involved. Egypt is not a signatory of the OECD Convention on Combating Bribery. While U.S. firms occasionally report corruption by lower-level government officials, they do not identify corruption as a major obstacle to foreign investment. Transparency International ranked Egypt 62nd out of 102 developed and developing countries in its 2002 survey on perceptions of corruption.

Two high-profile corruption trials in early 2002 resulted in conviction and jail sentences for several former government officials, including a former Minister of Finance, former head of the Customs Authority, and former Governor of Giza Province. In late 2002, banking officials and businessmen with large non-performing debts also came under increased scrutiny from authorities, with several officials and businessmen charged under corruption statutes.

B. BILATERAL INVESTMENT AGREEMENTS & REGIONAL COOPERATION

In 1992 the U.S. and Egypt signed a Bilateral Investment Treaty that provides for fair, equitable, and nondiscriminatory treatment for investors of both nations. The treaty includes provisions for international legal standards on expropriation and compensation; free financial transfers; and procedures for the settlement of investment disputes, including international arbitration.

Egypt has signed investment agreements with over 40 countries, including the United States, Armenia, Belgium, China, Finland, France, Germany, Greece, Italy, Japan, Libya, Luxembourg, Morocco, the Netherlands, Romania, Singapore, Sudan, Sweden, Switzerland, Thailand, Tunisia, and the United Kingdom.

In addition to specific investment agreements, Egypt is also a signatory to a wide variety of agreements covering trade issues. In July 1999, Egypt and the United States signed a Trade and Investment Framework Agreement (TIFA) as a step toward creating freer trade and increasing investment flows between the U.S. and Egypt. In June 2001, Egypt signed an Association Agreement with the European Union. Egypt's parliament ratified the agreement in March 2003, and five of the fifteen EU member states have also ratified it. The agreement will come into effect once the parliaments of all fifteen EU member states have approved it. In January 1998, Egypt began implementing agreements reached with 11 Arab League members in connection with the Arab Common Market treaty of the 1960's. These agreements call for phasing out existing tariffs over a 10-year period. Egypt joined the Common Market for Eastern and Southern Africa (COMESA) in June 1998.

Further information on Egypt's investment and trade regimes can be found in the National Trade Estimate Report on Foreign Trade Barriers produced by the U.S. Trade Representative.

C. OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

Egypt and OPIC signed in July 1999 an updated investment agreement to facilitate the ability of the agency to provide political risk insurance for U.S. private investment as well as for bid, performance, advance payment, and customs bonds and guarantees issued on behalf of U.S. suppliers and contractors in Egypt.

Egypt is a member of the World Bank's Multilateral Investment Guarantee Agency (MIGA).

D. LABOR

Egypt's labor force has grown steadily in recent years, with upwards of 500,000 new entrants into the labor market each year. As of January 2003, official statistics put the labor force at 20.176 million, of which 6.2 million (30 percent) are civil servants and public-sector employees, 5.1 million (25.2 percent) work in the formal private sector, and 6.9 million (34.25 percent) are in the informal sector. Official statistics estimate unemployment in the fiscal year 2002/2003 at 9.9 percent of the total labor force. Unofficial estimates range between 12 and 20 percent.

A new Unified Labor law (Law 12 of 2003) provides comprehensive guidelines on individual labor relations including organization of work and recruitment and termination of employees in Egypt, in addition to vocational guidance, training, health, and safety. The new law establishes a qualified right of employees to strike, as well as rules and guidelines governing mediation, arbitration, and collective bargaining between employees and employers. Non-discrimination clauses are included, and the employment and training of women and eligible children is regulated by the law in accordance with labor-related International Labor Organization (ILO) conventions. The law creates a national council to discuss and establish a national minimum-wage policy and a national committee that formulates general policies for employment in Egypt. The new Labor law came into effect on July 7, 2003, but ministerial decrees implementing the law have not been released as of July 2003.

According to foreign investors, certain aspects of the old labor law constituted significant business impediments, particularly the difficulty of dismissing employees. The new law is more flexible allowing employers and employees to terminate employment contracts under specific circumstances identified by the law and ministerial decrees. Workers in certain fields, especially in public sector companies, remain unfamiliar with the dynamics of market-based economies, and qualified specialists are in short supply. The privatization program in some cases requires a company's new owner to retain all workers. The government has used privatization proceeds to offer early retirement and/or other separation incentives packages to workers in some privatized companies. Foreign companies frequently pay higher wages to attract workers with valuable skills. Millions of Egyptians traditionally have sought employment abroad on both a temporary and permanent basis.

Workers may join trade unions but are not required to do so. A trade union or workers' committee may be formed if 50 employees express a desire to organize. Most union members, about 27 percent of the labor force, are employed by state-owned enterprises. All trade unions are required to belong to the Egyptian Trade Union Federation (ETUF). The International Labor Organization's Committee of Experts repeatedly has emphasized that a law requiring all trade unions to belong to a single federation infringes on the freedom of association, but the government has not changed the law.

The new law provides statutory authorization for the rights to strike and to engage in collective bargaining. Workers have the right to strike peacefully, provided strikes are organized by the trade union in defense of vocational, economic, and social interests and announced at least ten days in advance, with the employer and concerned administrative notified with the reasons and time frame of the strike. The law prohibits strikes in strategic or vital establishments in which the interruption of work could result in disturbing national security or basic services provided to citizens.

Collective negotiation is allowed between trade union organizations and employers or their organizations regarding improving labor terms, conditions, and employment provisions, cooperating between labor parties to achieve social development for workers of an establishment and settling disputes between workers and employers. Agreements reached through negotiations will be recorded in collective agreements regulated by the Labor law.

The Ministry of Labor sets worker health and safety standards, which also apply in the export processing zones, but enforcement and inspection under the old Labor law were uneven. The law prohibits employers from maintaining hazardous working conditions, and workers have the right to remove themselves from hazardous conditions without risking loss of employment.

In April 2002 Egypt ratified the International Labor Organization (ILO) Convention 182 on combating the worst forms of child labor. It was chosen by the ILO as the regional base to launch the first international report on child labor under the auspices of the Egyptian first lady.

The new labor law allows employers, for economic reasons, to fully or partially close down or downsize their firms, impacting the size of the employed labor force. Parliament passed an Emergency Subsidy Fund in June 2002 to compensate employees whose wages are suspended due to partial or complete closure of their firm or due to its downsizing. According to press reports, the GOE will draw the resources for the Fund from a one-percent deduction from the base salaries of public, public enterprise, and private-sector employees in firms with over 30 workers. Government contributions and outside donations will also provide support.

E. FOREIGN TRADE ZONES AND PORTS

Egypt had seven active public free zones in FY 2002-03: Nasr City (near Cairo Airport), Alexandria, Damietta, Ismailia, Sixth of October City, Suez, and Port Said. New extensions are being added to Damietta, and new zones are planned in North Sinai and the Red Sea. In January 2002, the GOE announced that Port Said's duty free status would be phased out over a five-year period.

Free zones are located within the national territory but are considered to be outside Egypt's customs boundaries, granting firms doing business within them more freedom on transactions and exchanges as a means of attracting foreign investment. They are subject to Investment Law 8 and are open to investment in any sector. Companies producing largely for export (normally 80 percent or more of total production) may be established in free zones and operate using foreign currency. Foreign investors have equal rights to operate in free zones. Free zones are established by a decree of the Council of Ministers.

Companies operating in free zones are exempted from customs duties, sales taxes or taxes and fees on capital assets and intermediate goods. However, warehouse companies are subject to an annual fee of one percent on the imported product's value, and production and assembly profits are subject to an annual fee of one percent on the exported product's value.

Concession agreements in such areas as petroleum, natural gas, and mineral exploration and exploitation, although not explicitly covered by Investment Law 8, receive many of the privileges of free-zone ventures. Concession agreements must be negotiated separately with the GOE and are subject to legislative approval.

In May 2002, Parliament approved the Special Economic Zones (SEZ) Law (Law 83 for 2002), which provides for the establishment of special zones for industrial, agricultural, or service activities designed specifically with the export market in mind. The law allows firms operating in these zones to import capital equipment, raw materials, and intermediate goods duty free. Companies established in the new zones also will be subject to lower corporate taxes and exempt from sales and indirect taxes. They will also operate under more flexible labor regulations and enjoy other incentives. The law's executive regulations were issued in September 2002 and procedures to establish the first SEZ in North Gulf of Suez are currently underway.

F. FOREIGN DIRECT INVESTMENT STATISTICS

Measurements of foreign direct investment (FDI) in Egypt vary according to the source and the definitions employed to calculate the figure. The Ministry of Petroleum keeps statistics on investment in the oil and gas sector, while the General Authority on Investment and Free Zones (GAFI) keeps statistics on all other investment.

In April 2002, the Prime Minister issued a decree merging the Companies' Authority to GAFI. GAFI's figures are calculated in Egyptian pounds at the historical value and rate of exchange. They are cumulative figures with 1971 as the start date, coinciding with the first investment law known as Law 43 of 1971 for Arab investment. Law 230 of 1977 for Arab and foreign investment replaced the former law. Law 8 of 1997 finally replaced Law 230.

GAFI statistics, as of June 30, 2003, show that U.S. investors had FDI in 260 companies, with a total investment of LE 1.945 billion ($320 million, LE 6.07/$1). The United States ranked second after the United Kingdom, which had an FDI share in 242 companies with a total value of LE 4.025 billion ($663 million, LE 6.07/$1).

In late 2001, the Ministry of Petroleum announced that $37.2 billion had been invested in Egypt's petroleum sector since 1981, with FDI accounting for more than 70 percent of the total and public sector investment accounting for the remainder. In FY 2000/2001, total investment in the petroleum sector was reportedly more than $1.8 billion, and over the last two fiscal years foreign investment in the petroleum sector (including operating expenses) reportedly increased to $2.05 billion in FY 2001/2002 and to $2.4 billion in FY 2002/2003, respectively. Ongoing spending over the last sixteen months on major natural gas production and transport infrastructure projects has contributed to these increases and is likely to continue.

Based on information about foreign direct investment flows in recent years, Embassy estimates total foreign direct investment in Egypt to be $10-15 billion.

Following the merger of AMOCO and BP, the United Kingdom became the largest foreign investor in Egypt, followed by the U.S. Other major investing countries include France, Italy, and Arab countries. The Department of Commerce calculated the stock of U.S. FDI as of the end of 2002 at $2.959 billion, with Apache Corporation, a major independent oil company, as the largest single U.S. investor. In addition to their major role in the energy sector, U.S. firms are active in banking and in a wide range of manufacturing industries, producing goods for the domestic and export markets. Examples of U.S. investors include American Express, Citibank, Coca Cola, Ralston Purina, Eveready, General Motors, Johnson and Johnson, Procter and Gamble, Pfizer, H.J. Heinz, Gillette, American Standard, Bristol-Myers Squibb, PepsiCo, Pioneer, and Xerox.

INVESTMENT STATISTICS* (billion USD)

	99/00	00/01	01/02	02/03
Foreign Direct Investment (flow)	1.656	0.509	0.428	0.578
Portfolio Investment (flow)	0.472	0.261	0.045	(0.206)
U.S. FDI (stock)	2.210	1.998	2.537	2.959

*Egypt figures for fiscal year (July-June), FY02/03 cover only 3 quarters.
U.S. figures for calendar year.
Source: Central Bank of Egypt, U.S. Department of Commerce